INSURANCE
A BASIC GUIDE FOR CONSUMERS

Ministry of
Consumer and
Commercial Relations
Ontario

At some point in their lives, most people will consider buying insurance on their life, home, car or health. Insurance is a means of providing financial compensation for loss. By paying a fee (premium) now, you insure that future events will not cause great financial hardship.

This pamphlet outlines some of the things you should consider before signing the policy. Insurance terminology can be baffling to the layman but it is worth your while to make the effort to understand exactly what type of protection you are buying.

Further information may be obtained from the sources listed in this booklet or from your insurance agent.

Buying an insurance policy

First of all, decide why you need insurance and what amount you require. Then investigate the types of policies available and decide which will best suit your needs. Talk to several agents and compare policies and prices. Before signing an application for a policy, make sure you understand all terms and conditions, including details of coverage, any restrictions, cancellation provisions and procedure for settling claims.

Read the policy carefully. If there is anything you don't understand, ask for an explanation. Remember that an insurance policy is a legal document.

Life insurance

The main purpose of life insurance is to provide your dependents with an income if you die. It may also offer other benefits such as forced saving, retirement income, collateral for loans or low-interest loans.

Things you should consider when evaluating your needs include medical, legal and funeral expenses, support and education of your children, income for your spouse, adjustment fund for your spouse (in preparation for employment and/or for further education) and paying off the house mortgage. Decide what needs would exist five, 10, 15 and 20 years from now. Don't forget to take into account any group insurance, savings or investments you may have.

There are three main types of life insurance: term, whole life and endowment. Any policy you buy will be a variation of one of these.

Term insurance provides protection for a limited and specified period of time. If the insured dies within that period, the company will pay the face amount of the policy to the beneficiary. If the insured is alive at the end of the time period, the policy expires and no benefits are payable.

Premiums are based on the age of the insured and the amount of the policy. Premiums are lowest for this type of life insurance.

Most term policies are renewable until the policyholder reaches the age of 65 or 70, when all coverage stops. Convertible term policies can be changed into whole life policies without the need for a medical examination, to provide coverage after the age at which the term policy would no longer apply.

Group insurance is a form of term insurance offered through employers, unions or associations. It provides protection for your beneficiary if you die while you are insured by the plan. Most plans allow you to convert the policy to a personal one within a specified time after leaving your job or resigning your membership.

Whole life insurance provides protection for the rest of your life and benefits are payable whenever you die. This is also known as "permanent" insurance, as opposed to the temporary protection of term insurance.

Whole life policies accumulate a cash value; the longer the policy is in force, the higher the cash value. There are a number of ways in which this may be used. You may borrow against the cash value at a specified rate of interest (usually low) from the insurance company; use it as collateral for a loan from another source; cancel your policy and take the cash value as a lump sum or in installments to provide retirement income or use it to purchase a fully paid-up policy for a smaller amount. Remember that when you borrow against your policy, you are reducing your coverage by the amount of the loan.

Premiums are based on payments spread over an average lifetime. "Straight life" means you pay the same premium throughout your life. "Limited payment life" means you pay a set premium for a specified number of

years, after which the policy is completely paid up and coverage remains in force for the rest of your life. The most common forms are "20-pay life", which means premiums are paid for 20 years, or "paid up at 65", in which premiums are paid until age 65.

Endowment insurance combines life insurance with savings. You pay premiums for a specified period, during which the amount of the policy is payable to the beneficiary if you die. If you are alive at the end of this period, the benefits are payable to you. This type of policy provides the highest cash value and is the most expensive to purchase.

Many options or "riders" to your basic insurance are available at additional cost. The most common are:
- accidental death benefits — pays more than the face value of the policy if you die in an accident. "Double indemnity" means the beneficiary receives twice the face value.
- disability benefits — if you become totally disabled, you will not have to pay the premiums and the policy will remain in force. A second type of disability coverage pays a monthly income if you become disabled.
- guaranteed insurability — gives you the right to buy specified amounts of additional coverage at specified times, without a new medical examination.

Settlement options

The method of payment of the proceeds of your insurance is specified by you when you purchase the policy: lump sum, monthly income or payable at a certain date or dates. The money may be used as the equivalent of a trust fund by making it payable upon certain conditions.

In addition to the uses already mentioned, life insurance may be used to save for your children's education, to defer taxes, to provide retirement income or to pay estate taxes or the mortgage on your house after your death. Ask your agent about the various ways of accomplishing these.

A word of caution

Think twice about cancelling your present life insurance policy and buying a new one. You may be better off changing or converting your policy, which most companies will be happy to do for you. When you buy a completely new policy you will have to start over again to accumulate cash values. The contestable period (usually two years, during which the company is entitled to question the statements made in the policy application), suicide clause (no benefits are payable if the policyholder commits suicide within a specified period) and any other waiting periods will start afresh for the new policy.

Under Ontario law, an agent is required to provide a statement of disclosure outlining the differences when an existing permanent life insurance policy is replaced with a new one. Never cancel your old policy until you are informed that the new one is in force.

Disability insurance

This type of insurance provides protection if you become disabled through accident or sickness. The considerations in deciding how much coverage you need are much the same as those of life insurance. If you are self-employed or the owner of a small business, you should consider plans which allow you to cover overhead expenses or buy out of a partnership.

The Canada and Quebec Pension Plans, unemployment insurance and workmen's compensation all provide disability insurance. Group insurance plans or life insurance policies may also provide this type of coverage. OHIP pays most medical bills for Ontario residents. Find out the details and amount of your present coverage before buying a personal disability policy.

The amount of disability insurance you may purchase is usually based on your income. Medical requirements are much more strict than for life insurance. In evaluating disability insurance plans, check:

- definition of disability — total, partial, recurrence
- when coverage begins, how long it continues
- amount of deductible
- maximum benefits payable
- waiting period before benefits begin
- how long benefits last
- whether benefits from other plans (e.g., workmen's compensation) are deducted from benefits payable
- exclusion clauses such as suicide, accidents-of-war, armed forces duty, dangerous sports
- conditions of renewing or cancelling the policy

(e.g., increasing premiums or reducing benefits)

Property insurance

Property insurance protects you financially against loss or damage to buildings, contents and personal belongings, damage that you cause to the property of others, injuries sustained by other people on your property or caused by members of your family.

The different types of insurance on your house, condominium, apartment or cottage are usually packaged together in a "homeowner's" or "tenant's" policy. Package policies are generally cheaper than buying separate policies for fire, theft and other risks.

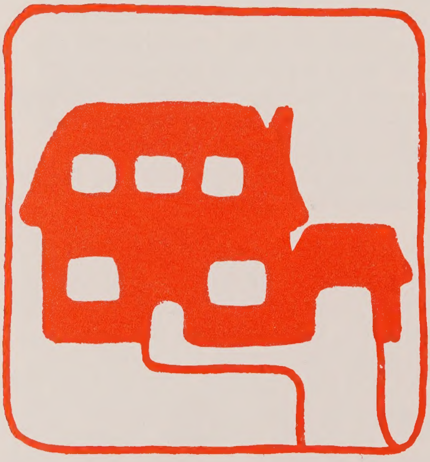
The amount of insurance you should carry on your home is determined by the replacement cost of the building, not the sale value of the property. This figure may be determined by appraisal or by square foot building costs in your area. With recent inflation in house values, coverage should be reviewed regularly.

To determine the amount of coverage required on contents and personal belongings, add up the replacement cost, room by room, of everything you own. Most insurance companies will provide inventory check lists. List items and estimated value on the form and keep it in your safety deposit box or other safe place away from your home in case of a future claim.

Consult your insurance agent about whether separate riders to your policy are required for valuable items such as jewellery, furs, antiques, collections, musical instruments or the boat and motor at your cottage. Photographs and appraisals of such items are useful in settling claims. Insurance on contents usually applies to the depreciated value and will probably include a deductible clause (amount of loss for which you are responsible).

Major risks covered by your home insurance usually include fire, smoke damage, lightning, explosion, falling objects, impact by vehicle (car or aircraft), riot, water escape, windstorm, hail, vandalism and theft. Certain occurrences, such as floods or earthquakes, may not be covered. Make sure you understand the extent of your coverage, any exclusion clauses and conditions which may invalidate your coverage. For example, if you are absent from your home for any length of time, your insurance may not apply unless your property is checked daily.

Personal liability insurance, usually included in package policies, provides protection if you or a member of your family cause property damage, death or injury to others. This provision also pays legal fees if you are sued for negligence. The amount of personal liability insurance you carry should reflect your financial worth, activity and your property. If you own a swimming pool, for instance, you should carry substantially more personal liability insurance.



When obtaining insurance on an apartment, condominium or townhouse, determine exactly which areas are your responsibility and which are covered by the landlord's or corporation's insurance. Broadloom, inner and outer walls of the unit, balconies and patios are areas to check.

If your home or apartment burned down today, where would you live? Does your policy include a provision for interim accommodation and for how long? Two weeks? Until the house is again habitable? The time to find out the answers is now.

Motor vehicle insurance

Insurance for your car, truck or motorcycle has two purposes: to provide compensation for loss or damage to the vehicle and to pay for damage or injury resulting from accidents for which you are responsible. All drivers in Ontario must have at least $100,000 public liability insurance or pay a fee to the Motor Vehicle Accident Claims Fund before being issued a vehicle permit. The purpose of the fund is to ensure that innocent victims involved in accidents are provided with damages awarded by the court. The fund is not insurance and the driver is still responsible for paying any claims or judgments, as well as legal costs.

The main factors influencing the cost of vehicle insurance are the age, sex and marital status of the principal driver. In addition, type and frequency of use (pleasure or business), driving and accident record of the insured, type of vehicle and number and characteristics of occasional drivers affect the rate you will be charged.

There are three main types of vehicle insurance.

Public liability and property damage insurance pays claims arising from injury, sickness or death of others as a result of an accident caused by you. It also pays for damage caused by your car to other people's property. Protection is provided for the owner of the vehicle and for others driving it with the owner's consent. The courts are awarding greater and greater damages to accident victims. These damages must be paid by the driver at fault and could take all of your earnings for the rest of your life. Make sure you have adequate liability insurance.

Collision insurance ensures payment for damages to your car if you are involved in an accident, no matter who is to blame. Because repairs are expensive, it is usually a good buy for those driving new or expensive cars and less necessary for older vehicles. Cost is based on the type of car and the deductible, or amount of money for which you are responsible.

Comprehensive insurance pays for loss of, or damage to, your vehicle from specified perils which may include vandalism, fire, theft and certain weather conditions. There is usually a deductible clause.

For additional information on vehicle insurance, write Consumer and Commercial Relations, Queen's Park, Toronto, Ontario M7A 2H6 for a booklet entitled "The Motor Vehicle Accident Claims Fund".

Regulation of the industry

In Ontario, the insurance industry is regulated by the superintendent of insurance of the ministry of consumer and commercial relations. The main duties of the superintendent are:

1) To establish that an insurance company is solvent and remains solvent in the future;
2) To see that the company follows proper business practices and maintains ethical standards;
3) To maintain the rights of consumers by reviewing policy terms and premium rates, mediating disputes over claims and responding to consumers' complaints.

For more information on insurance, contact:

Office of the Superintendent of Insurance
6th Floor
555 Yonge St.
Toronto, Ontario M7A 2H6
(416) 965-2500

Canadian Life Insurance Association
15th Floor
44 King St. West
Toronto, Ontario M5H 1E9
toll-free hotline: 1-800-261-8663

Insurance Bureau of Canada
13th Floor
181 University Avenue
Toronto, Ontario M5H 3M7
(416) 362-2031

Ontario

Ministry of Consumer and Commercial Relations.
Larry Grossman, Minister.

11/77 25M